

## **Section 242 Hospital Mortgage Insurance - Application Process Checklist (Revised 1/5/05)**

### **Introduction**

This checklist is provided for use by the Department of Housing and Urban Development (HUD) and its agents at the Department of Health and Human Services (HHS) in carrying out preapplication and application activities for the Section 242 hospital mortgage insurance program. It may also be used by mortgage bankers in submitting preliminary materials and applications for Section 242 insurance on behalf of client hospitals. It presents the application process, from initial contact to insurance commitment, in a step-by-step format that can be used as a tool by both HUD and the mortgage banker in project planning and execution.

Once HUD and an applicant decide to proceed with a project (typically during or shortly after a preapplication meeting), the HUD Account Executive (AE) and the banker may use the checklist as a planning tool, discussing the anticipated application schedule and penciling in dates. Actual dates can be entered as actions occur, and subsequent dates adjusted as necessary. Use of the checklist may help to keep HUD and the applicant on the “same page” and to avoid omissions, delays, and misunderstandings during the process.

## Section 242 Hospital Mortgage Insurance - Application Process Checklist (Revised 1/5/05)

Hospital/Contact/Phone:

Mortgage Bank/Contact/Phone:

HUD or HHS Account Executive/Phone:

Action Office	Trigger	Action	Information Needed to Complete This Step	Date Action Planned & Completed
Potential Applicant (Hospital or Banker)		<p>Contact HUD about possibility of FHA financing.</p> <p>(Note: If applicant is already a HUD client, all preliminary steps will normally be handled by the client's Account Executive.)</p>	<ul style="list-style-type: none"> <li>' Hospital name and location</li> <li>' General project description</li> </ul>	
HUD	Initial inquiry	<p>Provide program information to applicant verbally, by referring to web page, and by sending additional materials.</p> <p>Obtain project information from applicant by phone or e-mail; if hospital is clearly not a Section 242 candidate, explain why.</p>	<p>During initial contact, HUD should try to determine the following to provide quick answers in some cases or to identify issues to be resolved before proceeding further:</p> <ul style="list-style-type: none"> <li>' What is the nature and amount of the project?</li> <li>' Are statutory eligibility criteria met including 50% patient days calculation?</li> <li>' Are minimum financial criteria met?</li> <li>' Is at least 20% of the mortgage amount for a construction or modernization project?</li> <li>' Is physician ownership present?</li> <li>' Does local gov't ownership pose first lien problems?</li> <li>' Is hospital willing and able to grant a first lien on hospital property, plant, equipment, and receivables?</li> <li>' Is it a Critical Access Hospital? (different process)</li> <li>' Has construction begun already or is it about to?</li> <li>' Is this a design-build project?</li> <li>' Is the hospital in a CON state?</li> <li>' If in a CON state, does it have required CONs?</li> <li>' Does the hospital have a mortgage lender?</li> </ul>	

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			<ul style="list-style-type: none"> <li>' How knowledgeable is the lender about 242?</li> <li>' Is applicant prepared to bring sufficient cash to the table for equity and working capital?</li> <li>' Is there a current or planned receivables financing program?</li> <li>' Is it a Sole Community Provider or Regional Referral Hospital?</li> </ul>	
HUD	Initial contact indicates applicant may be a candidate for Section 242 financing	Request Preliminary Review information, if project appears to meet program requirements.	Send or direct the applicant to: <ul style="list-style-type: none"> <li>' Minimum Criteria for Consideration</li> <li>' Preapplicant Data Request</li> <li>' Applicant's Guide</li> <li>' Handbook 4615</li> <li>' OES contact and phone</li> <li>' List of Lenders (if needed)</li> <li>' Adjusted patient days calculation (if applicable)</li> <li>' Procedures for non-CON states (if applicable)</li> </ul>	
Applicant	HUD requests Preliminary Review information	Provide Preliminary Review information to HUD.	<ul style="list-style-type: none"> <li>' Above materials received from HUD</li> <li>' Written responses to Minimum Criteria</li> <li>' Project Description and available business plan</li> <li>' Draft application form HUD-92013 HOSP</li> <li>' Completed Preapplicant Data Request</li> <li>' Three years audited financial results</li> <li>' Description of ownership structure</li> <li>' Other information requested by HUD</li> </ul>	

Action Office	Trigger	Action	Information Needed to Complete This Step	Date Action Planned & Completed
HUD	Receipt of Preliminary Review information from applicant	Analyze Preliminary Review information.	<p>Review of preliminary information to determine the following:</p> <ul style="list-style-type: none"> <li>' Are statutory eligibility requirements met?</li> <li>' Is market need indicated?</li> <li>' Do financial results meet minimum criteria for consideration?</li> <li>' Is ownership structure a problem in relation to Stark and anti-kickback?</li> <li>' Is 80/20 refi/modernization rule met?</li> <li>' Are the sources and uses of funds in the 92013 in accordance with handbook?</li> <li>' Are there "design-build" issues to resolve?</li> <li>' Does a study need to be done in a non-CON state?</li> <li>' Are there other issues that would adversely affect the assessment of eligibility, need, or risk?</li> </ul>	
HUD	Negative Outcome of Preliminary Review	<p>If serious issues are identified in Preliminary Review, HUD informs applicant. Possible outcomes:</p> <p>Applicant is determined not to be a candidate for Section 242</p> <p>Applicant is informed of actions needed to resolve issues (may range from obtaining additional information to waiting a year for financial performance to improve). In some cases, a meeting may be appropriate, but this should not be identified as a preapplication meeting. An Account Executive may or may not be assigned.</p>		

Action Office	Trigger	Action	Information Needed to Complete This Step	Date Action Planned & Completed
HUD	Positive Outcome of Preliminary Review	<p>If all indications are positive, or if only manageable issues remain from Preliminary Review, HUD informs applicant of results of Preliminary Review and discusses next steps.</p> <p>An Account Executive (AE) and Client Service Team (CST) are designated.</p> <p>AE enters hospital into MIMI pipeline if not already done.</p>		
HUD & Applicant	Notification from HUD that minimum criteria are met	Schedule preapplication meeting (AE enter date in MIMI).	<ul style="list-style-type: none"> <li>' Date and time</li> <li>' Place</li> <li>' Additional project information needed in advance <ul style="list-style-type: none"> <li>By HUD from applicant</li> <li>By applicant from HUD</li> </ul> </li> <li>' Applicant's participants ready: owner or board representative, CEO, CFO, banker, attorney, architect, others</li> <li>' HUD's participants ready: HUD program office, account executive, attorney, Office of Engineering Services (OES)</li> <li>' Agenda approved by HUD and applicant</li> </ul>	

### Section 242 Hospital Mortgage Insurance - Application Process Checklist

Action Office	Trigger	Action	Information Needed to Complete This Step	Date Action Planned & Completed
HUD & Applicant	Preapplication meeting scheduled	Conduct preapplication meeting.	<p>Topics to be covered include, but are not limited to:</p> <ul style="list-style-type: none"> <li>' Certification of Need</li> <li>' Hospital Overview <ul style="list-style-type: none"> <li>' Community</li> <li>' Market</li> <li>' Organization</li> <li>' Clinical Programs</li> <li>' Financial Performance</li> <li>' Business Plan and Market Strategies</li> </ul> </li> <li>' Project Description <ul style="list-style-type: none"> <li>' Scope</li> <li>' Timing</li> <li>' Sources and Uses of Funds</li> </ul> </li> <li>' Standard Covenants</li> <li>' Legal Matters</li> <li>' Architectural and Engineering Matters</li> <li>' Construction Schedule including any: <ul style="list-style-type: none"> <li>' Site Preparation</li> <li>' Precommitment Work</li> <li>' Early Start</li> </ul> </li> <li>' Phase I Environmental Review</li> <li>' Application Process and Timing</li> </ul>	

<b>Action Office</b>	<b>Trigger</b>	<b>Action</b>	<b>Information Needed to Complete This Step</b>	<b>Date Action Planned &amp; Completed</b>
HUD	Preapplication meeting completed	Decide whether and on what conditions to invite an application (if not done at preapplication meeting).		
Applicant	Application invited by HUD *	Decide whether and on what schedule to proceed with application; notify HUD of target date for submission of complete application.		
Applicant	Decision to proceed with application	<p>Prepare all application materials called for in Applicant's Guide and in accordance with technical requirements in Handbook.</p> <p>Update AE on progress against schedule, monthly or as changes occur.</p> <p>Bring issues or questions to AE as they arise.</p> <p>Bring design issues and questions to assigned OES representative.</p>		
HUD	Notification that applicant is preparing application	Provide technical assistance to applicant as application is prepared; provide documented responses applicant can rely on.		

\* Applicant can submit an application without invitation. However, resolution of all preliminary issues before applying is recommended.

Action Office	Trigger	Action	Information Needed to Complete This Step	Date Action Planned & Completed
Applicant	Application completed	Send application, including consultant study, to HUD as directed by AE.	<p>Typical Distribution:</p> <ul style="list-style-type: none"> <li>' HUD HQ (1) plus one extra set of documents pertaining to organization and other legal issues</li> <li>' Account Executive (1)*</li> <li>' Client Service Team Member(s) (1 or 2)</li> <li>' Office of Engineering Services (1 or 2)*</li> <li>' HUD Field Office (1)*\$#</li> </ul> <p>* Include plans and specs with these copies only  \$ Include fee with this copy  # Include original HUD-2530 forms with this copy</p>	
HUD	Receipt of application	<p>Contact banker to acknowledge receipt of application and to go over the expected review schedule.</p> <p>Contact field office, get copy of check and verify correct amount.</p>		
HUD	Receipt of application	(HUD HQ) Initiate procurement action for independent feasibility review by HUD consultant.		
HUD	Procurement request from hospital program office	Obtain approvals, reserve funds, request and get proposals.		
HUD	Receipt of proposals from feasibility consultants	HUD HQ and AE review proposals and choose consultant; AE makes sure consultant gets all needed materials.		



<b>Action Office</b>	<b>Trigger</b>	<b>Action</b>	<b>Information Needed to Complete This Step</b>	<b>Target Compl. Date</b>	<b>Date Action Completed</b>
HUD	Receipt of application	Conduct completeness review of application	' Applicant's Guide Checklist		
HUD	Completion of completeness review	<p>Send (in)completeness letter to banker with copies to hospital and HUD HQ.</p> <p>If complete, also copy HUD Field Office (Housing and OGC) and enter date in MIMI.</p> <p>Enter target dates on this form and begin tracking review time.</p>			
Applicant	Incompleteness letter from HUD	Get missing information to HUD			
<b>HUD</b>	<b>Complete application</b>	<b>Completeness letter sent</b>			
HUD	Complete application	Contact Field Office to initiate environmental review as early as possible and to identify persons responsible for other aspects of the review.	<ul style="list-style-type: none"> <li>' Field Office Housing contact for enviro review</li> <li>' Field Office Housing contact for commitment</li> <li>' Field Office attorney for advice and closing</li> </ul>		

Action Office	Trigger	Action	Information Needed to Complete This Step	Target Compl Date	Date Action Completed
HUD & Applicant	Complete application	AE and OES coordinate schedules, then contact applicant to schedule site visit.			
HUD	Complete application	AE and Client Service Team conduct underwriting review in accordance with underwriting guidelines and begin writing their report.	<ul style="list-style-type: none"> <li>' Client Service Team Report Template</li> <li>' Library of previous final reports</li> </ul>		
HUD	Identification of any “deal breaker” issues in application (may occur in completeness review or underwriting review)	AE and CST surface the issue to supervisor, PMG (if appropriate) and applicant ASAP, before completing review. *			
HUD & Applicant	Site visit scheduled	HUD conducts site visit (includes underwriting and OES reviewers).			
HUD & Applicant	Feasibility consultant site visit scheduled	HUD feasibility consultant conducts site visit.			
HUD & Applicant	Environmental onsite review scheduled	HUD Field Office staff conduct environmental site inspection.			
HUD & Applicant	Environmental issues identified	<p>AE identifies any issues that require HUD HQ environmental review and approval.</p> <p>AE works with applicant and HUD to resolve issues.</p>	<ul style="list-style-type: none"> <li>' Consultation with HUD Field appraiser</li> </ul>		

\* At any time during the review process, the CST may bring issues to the PMG for policy decisions or guidance. Supervisors should ensure that important issues are surfaced as early as possible.

Action Office	Trigger	Action	Information Needed to Complete This Step	Target Compl Date	Date Action Completed
HUD	HUD consultant's report received	After reviewing report, CST and HUD HQ conduct conference call with consultant to compare findings and answer any questions. Include discussion of any special covenants and conditions that may be needed.			
HUD	As needed	Resolve any legal issues with OGC before finalizing CST Report.			
HUD	Following site visit	Get environmental clearance from Field Office and from HUD HQ if required.			
HUD	Following site visit	Get approval letter from OES.			
HUD	Following site visit and review of consultant's report	Get CST Report in "almost final" form including supervisory and peer review in accordance with office policy.			
Applicant	Varies	Request approval of precommitment construction work			
HUD	Receipt of request for precommitment construction work	CST and OES review request and HUD responds			

Action Office	Trigger	Action	Information Needed to Complete This Step	Target Compl Date	Date Action Completed
HUD	All approvals received	Place application on Program Management Group agenda and distribute report to PMG members via e-mail.  Send hard copies of approvals to HUD HQ.	<ul style="list-style-type: none"> <li>' CST Report</li> <li>' Covenants and conditions</li> <li>' Environmental approval</li> <li>' OES approval</li> <li>' Legal opinion for study in non-CON state</li> <li>' Certificate of Need (if applicable)</li> <li>' Final HUD-92013 HOSP</li> </ul>		
HUD	PMG presentation set	AE-CST present to PMG and receive any guidance on further work required or changes to the report.			
HUD	Report finalized in accordance with PMG directions	(This step required only if report needed changes after first PMG review.) Place on PMG agenda, distribute report in advance.			
HUD	Final report received by PMG	PMG reviews final report with AE-CST and makes recommendation to Director, OIHCF.			
HUD	PMG recommendation	Director decides whether to recommend approval to FHA Commissioner. Possible outcomes include: (1) Recommend approval (2) Recommend approval with Conditions (3) Request additional analysis (4) Recommend disapproval			

<b>Action Office</b>	<b>Trigger</b>	<b>Action</b>	<b>Information Needed to Complete This Step</b>	<b>Target Compl Date</b>	<b>Date Action Completed</b>
HUD	Director decision	If decision is for changed conditions and covenants, or for additional analysis, AE-CST perform the required work. The case may be re-presented to the PMG if Director desires.			
HUD	Director decision	HUD staff make any final cosmetic changes required in CST report.			
HUD	Negative Director decision	If decision is for disapproval, Director sends letter to applicant explaining decision.			
HUD	Positive Director Decision	AE sends conditions and covenants to applicant with request for written approval.			
Applicant	Receipt of request from HUD to approve covenants and conditions	Review materials and send written approval to HUD.			
HUD	Positive Director Decision	CST prepares memoranda for Commissioner's signature and forwards to HUD.			

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HUD	Positive Director decision	If decision is for approval, HUD staff finalize package including CST report, memorandum to Commissioner recommending approval, and memo for Commissioner to sign to Field Office directing issuance of commitment letter. A briefing may be held. AE-CST may be asked to provide answers to questions or additional info.			
HUD	Commissioner decision for disapproval	Director (or Commissioner) sends letter to applicant explaining decision.			
HUD	Commissioner decision for approval	Commissioner's memo sent to Field Office.			
HUD	Commissioner decision for approval	Director notifies Public Affairs and provides publicity materials.  Director notifies applicant.			

Action Office	Trigger	Action	Information Needed to Complete This Step	Target Compl Date	Date Action Completed
HUD	Commissioner decision for approval	Upon receipt of Commissioner's memo, OIHCF prepares and issues Commitment Letter to applicant.			
HUD & Applicant	Commitment letter	Applicant and Field Office schedule initial closing.			
Applicant	Commitment letter	If desired, request early construction start.			
HUD	Request for early start	Review and act on request.			
HUD & Applicant	Commitment letter	CST interviews both banker and hospital to determine customer satisfaction and to obtain suggestions for improving the application process.			
HUD	Application process complete	Application Process Debriefing. CST presents briefing to PMG on lessons learned from this application, focusing on (1) results of customer interviews and (2) any policy or procedural changes to be considered for general use.	<ul style="list-style-type: none"> <li>▸ Completed "Application Process Checklist" for this application</li> <li>▸ Results of customer interviews</li> <li>▸ Description of policy issues raised by this application</li> <li>▸ Description of process issues raised by this application</li> <li>▸ Recommended changes to regulation, handbook, desk manual, applicant's guide, or checklist</li> </ul>		
<b>END APPLICATION PROCESS</b>					